

Message Text

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PAGE 01 COPENH 01962 050847Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07
L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15
USIA-15 AID-05 COME-00 EB-08 FRB-01 TRSE-00
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R 041620Z APR 77
FM AMEMBASSY COPENHAGEN
TO SECSTATE WASHDC 4220
INFO AMEMBASSY BONN
USMISSION EC BRUSSELS
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE

UNCLAS COPENHAGEN 1962

E.O. 11652: N/A
TAGS: EFIN, EC, DA
SUBJECT: DANISH KRONER DEVALUED BY THREE PERCENT

REF: A. COPENHAGEN 1932 B. 76 COPENHAGEN 3497

SUMMARY: AS REPORTED REF A, THE DANISH KRONE, EFFECTIVE APRIL 4, 1977, WAS DEVALUED BY THREE PERCENT IN RELATIONS TO THE GERMAN MARK, DUTCH GUILDER AND BELGIAN FRANC. DANISH ECONOMICS MINISTER HAEKKERUP STATED THAT THE SWEDISH DECISION TO DEVALUE BY SIX PERCENT TRIGGERED THE DANISH MOVE. FOREIGN EXCHANGE FIXING ON APRIL 4 SHOWED A DROP IN THE DANISH KRONE OF THE FULL THREE PERCENT. END SUMMARY.

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1. THE SWEDISH DECISION LAST FRIDAY TO DEVALUE THE SWEDISH KRONE BY SIX PERCENT TRIGGERED THE DEVALUATION OF THE DANISH KRONE BY THREE PERCENT IN RELATION TO THE GERMAN MARK, DUTCH GUILDER, AND BELGIAN FRANC.
2. DANISH ECONOMICS MINISTER HAEKKERUP STATED THAT THE SWEDISH DECISION WAS THE ONLY REASON BEHIND THE

DANISH DECISION TO DEVALUE, A STEP WHICH WOULD OTHERWISE HAVE BEEN PREMATURE IN THE LIGHT OF THE PRESENT STABILITY IN FOREIGN EXCHANGE MARKETS.
SWEDEN IS ONE OF DENMARK'S LEADING TRADE PARTNERS AND AN ISOLATED SWEDISH KRONE DEVALUATION WOULD HAVE HIT DANISH INDUSTRY RELATIVELY HARD.

3. BEFORE THE NEW DEVALUATION, THE DANISH KRONE HAD, SINCE THE OCTOBER 1976 REALIGNMENT (REF B) GAINED AND STEADILY MAINTAINED A TOP POSITION IN THE SNAKE ALONG SIDE THE DUTCH GUILDER, WITH THE OTHER SNAKE CURRENCIES CROWDED NEAR THE BOTTOM. THE KRONE'S EFFECTIVE DEVALUATION WAS THUS LESS THAN TWO PERCENT, LEAVING IT A 2.1 TO 4.3 PERCENT MARGIN BEFORE IT WOULD HAVE RETURNED TO THE BOTTOM OF THE SNAKE.

4. THE GENERAL PRESS VIEW OF THE NEW DEVALUATION IS THAT ITS LIMITED FAVORABLE EFFECTS WILL BE RAPIDLY NEUTRALIZED BY INCREASED IMPORT COSTS. SOME COMMENTATORS FIND IT UNJUSTIFIED IN VIEW OF THE PRESENT STABILITY IN FOREIGN EXCHANGE MARKETS AND THINK THAT THE SHORT TIME BETWEEN THE TWO DEVALUATIONS MIGHT COMPLICATE DANISH LOAN TAKING ABROAD. SOME SEE THE DEVALUATION OF THREE PERCENT AS INSUFFICIENT TO COPE WITH THE PRESENT DISEQUILIBRIUM IN THE DANISH BALANCE OF PAYMENTS.

7. ON APRIL 4 IN COPENHAGEN THE DANISH KRONE ON THE AVERAGE DROPPED THE FULL THREE PERCENT IN RELATION
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TO ITS NON-DEVALUED SNAKE PARTNERS AND TO CURRENCIES OUTSIDE THE SNAKE COOPERATION. DOLLAR ROSE TO 601.90 COMPARED TO 585.30 LAST FRIDAY. BASED ON THE RE-ALIGNED RATES, THE DANISH KRONE MAINTAINED ITS POSITION AT THE TOP OF THE SNAKE WITH THE GERMAN MARK AT THE BOTTOM, 2.1 PERCENT BEHIND.

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